

5/2/77 [3]

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THE WHITE HOUSE

WASHINGTON

May 2, 1977

JIM FALLINGS HAS BEEN

MEMORANDUM FOR THE PRESIDENT

FROM: JIM FALLOWS *JIF*

SUBJECT: Welfare Statement

There are few suggested changes:

1) Jim Parham has sent in a suggested passage, attached on a separate page. The proper place for it would be after the second full paragraph on page one. ✓

2) Page 1, last line: why don't we break this sentence up, so that it reads: "is still overly wasteful, unfair, and subject to fraud. It violates ..." I think that would sound smoother. ✓

3) Page 2, goal (d): Henry Aaron says that this might be construed as an endorsement for Humphrey-Hawkins. He suggests no change in language but says you should be ready for the question. ✓

4) Page 2-3, goal (h): Aaron says that the words "or earn adequate incomes" should be added, so that it would read "A decent income should be provided also for those who cannot work or earn adequate incomes, with ..." He says this would include supplements for the working poor. ✓

5) What about numbering the goals, 1-12, instead of lettering them (a) through (l)? ✓

6) Page 4, next to last line: I think you should say "the administration's proposed reforms" rather than "administration reforms." ✓

7) Even though we have dampened the reporters' expectations, I retain my grave concern that this will be taken as a campaign speech, since most of the principles are ones you stated in the campaign, and the few that are new (for example, consolidated payments) are stated in a very muted fashion.

I understand the reason for understatement at this point. But I wish you would do the following: depart from the text to extemporize briefly about the jobs the nation needs done and the people who are willing to do them. Cleaning up cities, stripping off lead paint, helping agricultural agents -- you know the kind of work we are talking about, and you can discuss it with feeling. It was only when you started talking about these prospects at one of our meetings that I began to get excited about the program. I believe it would have the same effect on the public.

I see three advantages to doing this:

- it sounds like something new;
- it sounds like something good;
- since it's extemporized, it implies both that you care about it and that it's not yet part of the official record.

I also see two disadvantages:

- the HEW people will feel slighted and will feel you've underemphasized private work;
- it will imply that you've already reached conclusions you may not want to reveal.

5/1/77

MASTZ

Return

J.C.

file
J

Shortly after becoming President, I announced that a comprehensive reform of the nation's welfare system would be one of our first priorities. Under the general leadership of HEW Secretary Califano, we have worked with other ^{private and} government agencies during the last three months to assess the present welfare system and to propose improvements to it. It is worse than we thought.

(EXAMPLES/CHARTS)

The most important unanimous conclusion is that the ~~present welfare programs system~~ ^{present welfare programs} ~~present system~~ should be scrapped and a totally new ~~welfare program system~~ ^{welfare program} implemented. ^{Congress} ~~through Congress~~ ^{has made}

~~Although many major improvements have been made,~~ ^{the present complicated network of programs is still} ~~overly~~ ^{subject to fraud} wasteful, unfair, and violates many desirable and necessary

principles. We have established the following goals:

- a) No higher ^{initial} ~~total~~ cost than the present systems;

and millions of needy families are ^{now} ~~not~~ served,

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- 2 -
- Under this system*
- b) ^{children and} Every family with a member able to work should ^{have} ~~access to a~~ ~~be provided with a~~ job;
- c) Incentives should ^{always} encourage full-time and part-time private sector employment;
- d) Public training and employment programs should be provided when private employment is unavailable;
- e) ~~A family~~ ^{A family} should ~~always~~ have more income if it works than if it does not;
- f) ~~Every~~ Incentive^s should be ^{designed} ~~given~~ to keep families together;
- g) Earned income tax credits should be continued ^{to} ~~help~~ ^{for} the working poor;
- h) A decent income should be provided also for those who cannot work, with ^{federal} benefits consolidated into a simple cash payment, *varying in amount only to accommodate differences in costs of living from one area to another.*
- i) The programs should be simpler and ^{easier} ~~easy~~ to administer;

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j) There should be incentives to be honest and to eliminate fraud;

k) The unpredictable and growing financial burden on state and local governments should be reduced ^{as rapidly as federal resources permit; and} ~~and~~

l) Local administration of public job programs should be emphasized.

We believe these principles and goals can be met.

There will be a heavy emphasis on jobs, ^{simplicity} ~~availability~~ of administration, a ~~constant~~ financial incentive to work, adequate assistance for those who cannot work, equitable benefits ^{for} ~~among~~ all needy American families, and close cooperation ^{between private groups and} ~~among~~ officials at all levels of government.

The more jobs ^{that are available,} ~~we can provide,~~ the less cash supplement we will need.

We will work closely with Congress and with state, ~~and~~

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THE WHITE HOUSE
WASHINGTON

May 2, 1977

Jim Fallows -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re:
Revisions for Welfare Reform
Statement

To The President

THE PRESIDENT HAS SEEN.

From Jim Fallows

Jim

THE WHITE HOUSE

WASHINGTON

May 1, 1977

Mr. President:

Last night I prepared one draft of your welfare reform statement. This morning I got comments from Secretaries Marshall and Califano, Charlie Schultze, Bert Carp, Henry Aaron, Arnie Packer, and Bob Greenstein of USDA. I also sent copies to Jim Parham, Sue Woolsey, Frank Raines, and Mike Barth, but have not heard from them.

I have incorporated nearly all of the comments in the draft you're getting now. Below is a list of the ones I have not incorporated, either because they were contradictory or because I could not find a way to work them in.

page 3: when discussing the value of welfare payments, Greenstein says he worries about so cavalierly imputing an insurance value to Medicaid payments. He feels we need to explain this concept of imputed value.

page 3 and 4: Henry Aaron will have more examples this evening of the illogic of welfare arrangements.

page 5: there is a dispute about the phrase "family heads" that I do not feel competent to resolve. Carol Foreman says the constant emphasis on jobs for "family heads" means that men will always get them and women will be relegated to second place. Joe Califano recommended that the second sentence of the second paragraph be rewritten, "Every family that wants work for one of its members ought to have work." That is fine with me, but it does not resolve the problem of using "family head" elsewhere in the statement and the policy.

page 6 and 7: Charlie Schultze's general comment about the first draft was that it was too lyrical in its praise of public jobs and not strict enough in emphasizing incentives for private work. I hope I have corrected that. But he specifically questions the Plains illustration. He said, "That's just the problem. If we had a whole nation of Plainses, there'd be no troubles at all." His point is sound, but I think the illustration is extremely valuable, as long as you indicate you don't think New York is a big Plains.

page 9: Greenstein thinks it is a bad idea to name Tom Bradley specifically. He says some reporter is bound to turn up a scandal there and ask if we want this man controlling the jobs.

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In an earlier draft, I had used specific numbers in talking about the jobs--as many as 2 million nationwide, 7 in Plains, 70,000 in New York, 50,000 in Los Angeles. Nearly everyone recommended that I take them out.

page 11, last paragraph continuing to top of page 12:
in the first draft, I had set out the "levels of achievement" you mentioned yesterday: if we create a million jobs, we'll need a certain cash supplement; less supplement if we create 1.5 million; and even less if we managed to create 2 million. Califano and Aaron recommended that we stay away from those numbers and just say the more jobs the less cash.

page 14: there is substantial controversy about the freeze on state contributions. Henry Aaron says that we will put some ceiling on, but we are not sure when we will do it, and at what level of contributions. The solution might be to cut the second sentence of that paragraph.

Several other suggestions:

Califano suggested a quote from a Sister Corita poster--
"To do a common thing uncommonly well brings success."

He also suggested that this is one time that you might properly draw on your religious background. All of our different religions teach us one thing that seems to have otherwise gone out of our culture--that people of different types deserve each other's respect. ("Joseph and Mary would have been on welfare," Califano said.)

Marshall suggested mentioning a program I have not found the place to work in--the cooperative effort between USDA, Labor, and Interior to put young people to work in conservation and in the forests. It could illustrate the way we would employ people in the federal government.

He also made a structural suggestion I decided not to take--that of moving the "principles" on pages 13-14 up ahead of the description of the jobs program and the cash consolidation.

5/1/77

WELFARE STATEMENT -- DRAFT

Shortly after I became President, I announced to the American people that a comprehensive reform of the welfare system would be one of my administration's first priorities.

[As I said many times while campaigning for the Presidency, our welfare system has failed.] In the last forty years it has given help to millions of families who needed it; it has helped millions of poor people move toward independence.

~~But~~ ^{welfare} The many separate programs that made sense at one time have grown into a senseless tangle. We are left with a system that is anti-work and anti-family. It has become frustrating, confusing, demeaning, and unfair, for almost everyone involved. I asked the Secretary of Health, Education, and Welfare, Joseph Califano, to direct a three-month effort to study the welfare system and present, on May 1, his recommendations for ways to solve its problems.

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In that time, Secretary Califano and his staff have held more than 100 meetings with groups all over the country -- Congressmen, mayors and governors, families who must rely on welfare and families who do not. At one point he personally presided over a ten-hour hearing to discuss some of the most complicated problems. They have received advice from leaders of the Congress who have studied these problems, including Representative Ullman and Senator Long.

In the last few weeks we have been discussing the findings. The most important single conclusion is that nothing less than a total change will do.

I am convinced that we must completely overhaul our welfare system, and start over with something new. My administration is determined to work with the Congress and state and local officials to replace welfare with a

new system which emphasizes earned income, simple
efficient administration, and a new spirit of work
and public cooperation among our people.

Let me describe some of the problems that Secretary
Califano discovered in his study.

But we have now decided on the two basic components of our new approach.

One is an emphasis on earned income. Every family head who is able to work ought to work -- in a meaningful, productive, full-time job, in the private sector wherever possible. Our economic policies will be designed to create more private jobs, and our training programs to prepare people for them.

But where there is a gap between the private jobs available and the family heads looking for work there is a better answer than welfare. Instead, we should do our best to fill the gap with publicly-supported jobs that will benefit every member of the public.

We are determined to preserve clear incentives for private rather than public work. It should always be more attractive to take a job in the private sector. But

when we must create public jobs, we should rely on communities to put people to work and to make sure that they are productive, important jobs that people can perform with a sense of pride.

This can be one of the most exciting aspects of our plan, and one that will make a tremendous difference for the good in the quality of our lives. I want to explain it clearly.

In my experience as a businessman and as a governor, I have always been bothered by the rigid federal controls that traditional public service employment efforts sometimes bring. It often seems that when the federal government tries to create jobs for people who need them, it ends up wasting the worker's time, and the taxpayer's money -- and still not creating a satisfying, worthwhile, productive job. I don't mean to criticize the federal

government; even with the best intentions and the most skillful administrators, it is hard to run a program from Washington that is flexible enough to meet the needs of the different communities and regions in our nation.

But I also realize that there are many jobs that need doing in our hospitals and schools, our cities and national parks -- and many people able to do them. The goal of our program will be to match people who can work with jobs we need done, without building an enormous federal bureaucracy in between.

Let me give you one small example that first helped me understand the possibilities of this program. I also have no doubt that if the city council in my own town, Plains, were given the responsibility of putting a half dozen people to work, they would find worthwhile jobs for them -- serving as a nurse's aide, helping an agricultural extension agent; working with older people or in the schools.

You could be sure they wouldn't loaf. You could be sure the jobs would matter.

Naturally, Plains is not "typical" of America. No place is. But it is the town I know first-hand -- and what I know gives me confidence that the program could succeed.

Even though the problems are enormously more complicated in cities like New York or Los Angeles which might have tens of thousands of new jobs, I am sure of two things.

One is that the jobs are there to be done -- whether in cleaning up a city, helping in a mental health care center, working as a policeman's assistant, taking lead-based paint off the walls of schools and homes, or restoring our national parks.

The other is that the people who know each community best can best take the responsibility for seeing that the

work gets done. If the people of Los Angeles, for example, know that their Mayor -- my friend Tom Bradley -- is responsible for finding the jobs and supervising the program, the program is more likely to work than if it is run from 3000 miles away. Mayors, governors, county commissioners, community leaders and community organizations will make it work -- because they know how and because they'll be responsible if it doesn't.

No one knows how many new jobs we could create.

In the next few months, we will assess the need by asking governors, state and local officials, and the leaders of private institutions how many additional people they would hire for new public services, if the federal government paid a major share of their wages.

We do not intend to pay states and cities to hire people they would have hired anyway. We will not undercut

the wages of existing workers. But with so much extra work to be done, there should be no competition.

The welfare system has been depressing; but now I believe we face an exciting prospect. With these new efforts, we can preserve the good things that welfare has done and correct it where it has gone wrong. We can provide decently for those who need care and encourage those who can contribute to work together, in a spirit of national pride and cooperation, to do the jobs we all want done.

I know that the jobs are there. I know people are willing to do them. The challenge we face now is to put them together.

No matter how successful we may be in creating useful jobs, there will still be millions of people we cannot expect to work -- the aged, the severely disabled,

those with small children around the house. Other families may not be able to earn enough to support themselves, even at full time jobs. The second component of our plan is to provide for them in a dignified, compassionate fashion by simplifying and consolidating our cash assistance programs.

The federal welfare "system" is actually a patchwork of separate programs -- Aid to Families with Dependent Children, Supplemental Security Income, food stamps, and many other federal, state, and local programs. Some of these programs overlap. Others leave gaps that deny families coverage. All of them have complicated administrative structures that are wasteful to the taxpayer, degrading to the recipient, and far too easy to abuse.

The time has come to consolidate these fragments into a simple, efficient, understandable, cash assistance program, which will work in harmony with our new employment

strategy. The more jobs we can create, the smaller the cash supplement we will need.

It will take time to consolidate our welfare programs in a careful, efficient way and integrate them with our jobs program. Even if we begin work now -- as we should -- the full system will not be in place until 1981.

In the meantime, we must move quickly to improve and simplify the present assistance programs. Last month I submitted to the Congress a proposal to overhaul the food stamp system, by eliminating the food stamp purchase requirement, tightening rules for eligibility, and streamlining the whole administrative system. The food stamp program is a model of our welfare problems. The same waste, complication, and administrative complexities that make welfare reform essential also mean that we must overhaul the food stamp program without wasting a single

day. I urge the Congress to undertake the crucial work of reforming the food stamp system by enacting the food stamp proposal now before the Agriculture Committees of the House and Senate.

Beyond these components, there are several other principles on which we will base our plan:

First, we should redirect our training and employment efforts, so that their help goes to those who need it most.

Second, we should provide a minimum federal benefit, possibly with some variation to reflect different local costs of living. This will help ensure that people in similar circumstances receive generally similar support.

Third, we must make sure that a family will always receive more money if it works than if it does not -- and that there are strong incentives for private rather than

public jobs. We should also be sure that those who labor every day, pay their taxes, but still do not earn enough to support their families adequately, receive help in a fair and dignified manner. The Earned Income Tax Credit, which Senator Long developed, embodies this concept.

Fourth, we must give families every incentive to stay together, rather than splitting up.

Fifth, we must reduce the tremendous and unpredictable burden of welfare costs on state and local governments. We should freeze the state supplement at the current level.

Sixth, we must remove the stigma placed on those who, because of illness, disability, lack of education, or lack of opportunity cannot support themselves. We must create a system in which all of us who can contribute help those who cannot.

The details of this program will be extremely complicated. Its effect will vary from state to state. There are many specific points on which we urgently need the valuable advice of members of the Congress, state and local officials, and others who have thought deeply about these problems. I am asking Secretary Califano to get in touch with all 50 governors, state by state, to work out the details of our cash assistance program. Secretary Califano, Secretary Marshall, and other members of my Administration will work closely with the Congress, the governors and other state and local officials on all the components of our plan, especially the new program of public jobs. We will spend the next three months seeking advice and developing our proposals, and we will present legislation to the Congress in the first week of August.

The Congress will be busy in the next few months with many important proposals, including economic stimulus,

tax reform, hospital cost containment, social security, and the energy program. I urge action on the energy program as the first priority. But we should push hard now to refine the details of our welfare proposal. That way Congress can complete action early next year, and our nation can enjoy the benefits of all its peoples' working power as soon as possible.

We have a choice, and an opportunity, with our welfare programs. Our choice is whether to build a new, efficient, compassionate system or let the old ones deteriorate; the opportunity is to match our nation's abilities with our needs. If we have the foresight, and the flexibility, to work together, abandon code words, and find new answers, I am sure we will succeed.

#

C

Shortly after becoming President,
I announced that a comprehensive
reform of the nation's welfare system
would be one of our first priorities.
Under the ^{general} leadership of New Secretary
Califano, ~~we have worked very closely~~
staff have worked with other government
agencies during the last three months
to assess the present welfare system
and to propose improvements to it. It
is worse than we thought.

EXAMPLES
CHARTS →

The most important unanimous
conclusion is that ^{the present system} ~~a nothing less than~~
should be scrapped and a totally new
~~a total change will be necessary.~~
program implemented.

The present system ^{complex} ~~is~~ compli-
cated, ^{network of programs is} ~~is~~ wasteful, and unfair and

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violates many ^{desirable and necessary} of the principles.

We have established the following goals:

a) No higher ^{total} cost than the present systems;

b) Every family ^{with a} supported by a working member able to work

Incentives should be provided with a job; encourage full time and part-time

c) Private sector employment; should have priority;

d) Public training and employment ~~administered by the labor department~~ programs should be provided for when private employment is unavailable; those who need them most;

e) A family should always have more income if it works

than if it does not;

f) Every incentive should be given to keep families together;

g) Earned income tax credits should be continued for the working poor;

h) A decent income should be provided also for those who

cannot work; with benefits consolidated into a single cash payment;

i) The program should be simpler and easy to administer;

j) There should be incentives to be honest and to eliminate fraud;

k) The ~~too~~ unpredictable and growing financial burden on state and local governments should be

reduced; and

2) local administration of public job programs should be emphasized.

¶ We believe these principles and goals can be met. ¶ There will be a heavy emphasis on jobs^{availability}, a constant financial

incentive to work, adequate assist-

ance for those who cannot work,

equitable benefits among all

American families, and close

cooperation among all government

officials and at all levels of

government.

¶ The more jobs we can provide, the less cash supplement ~~need there will be~~ we will need.

We will work closely with

Congress and with state and

Local government leaders, and
will ~~present~~ ^{have} ~~complete~~ and
~~present~~ legislative proposals to
Congress ^{completed} ~~before~~ by the first
week in August. If Congress the
new legislation can be adopted early
in 1978, an additional three
years will be required to implement
the complete program. The ~~when~~
extremely complicated changes
must be made carefully and
responsibly. Consultations ~~must be~~
with all fifty states are necessary.

In the meantime, the purchase
requirement for food stamps should be

eliminated, and public hearings
should begin so that details of
our proposals can be explained
and debated.

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Campaign Commitment
Studied 3 months
Worse than we thought
Tunk entire system
(Charts to show why)

Careful & responsible
Touches lives of millions of families
Involves every level of government
Studies have been fruitful
Believe it can be done (without delay)
Four years if Congress acts early 1978

Spell out principles and outline today
Begin consultations with Governors in 2 weeks
Legislative package to Congress before summer recess
Congressional action early in 1978

Principles:

- a) Jobs for those who can work
- b) Earned income tax supplement for working poor
- c) Decent income for those who can't work
- d) Private employment preferable to public
- e) Fulltime preferable to part-time
- f) Work preferable to welfare
- g) Simple to understand & administer
- h) ~~Elim~~ Reduce fraud. incentives to be honest
- i) Promote family stability

- j) Working family higher income than non-working
 - k) Fiscal relief for state/local govts when resources permit. Freeze present level
 - l) Low income families assisted equitably
- Income supplements based on family size/income
Income supplements based on extended time period

Consolidate SSZ, AFDC, food stamps

Zero additional cost

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4) PUBLIC TRAINING AND EMPLOY-
MENT PROGRAMS SHOULD BE PROVIDED WHEN
PRIVATE EMPLOYMENT IS UNAVAILABLE;

5) A FAMILY SHOULD HAVE MORE
INCOME IF IT WORKS THAN IF IT DOES
NOT;

6) INCENTIVES SHOULD BE
DESIGNED TO KEEP FAMILIES TOGETHER;

7) EARNED INCOME TAX CREDITS
SHOULD BE CONTINUED TO HELP THE
WORKING POOR;

8) A DECENT INCOME SHOULD BE
PROVIDED ALSO FOR THOSE WHO CANNOT

SCHEDULED CONGRESSIONAL HEARINGS
WILL PERMIT THE NATURE OF THE TASKS
AHEAD TO BE EXPLAINED AND DEBATED.

IN THE MEANTIME, THE ADMINISTRA-
TION'S PROPOSED REFORMS FOR THE FOOD
STAMP PROGRAM SHOULD BE ENACTED.



THE PRESIDENT HAS SAID,

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

MEMORANDUM FOR THE PRESIDENT

FROM: JOE CALIFANO *Joe Califano*

SUBJECT: WELFARE REFORM

This memorandum is intended to help you decide on the content of your announcement to the American people on welfare reform. In order to make that decision, it is important that you understand:

- the areas of agreement among your advisers on welfare reform;
- three basic issues on which disagreement persists that require your decision;
- two programs that illustrate different approaches to these basic issues (although a number of variations on these programs is possible); and
- more detailed discussion of the three issues.

This memorandum will discuss these points as background for tomorrow's meeting on your report to the nation.

I. AREAS OF AGREEMENT

A. Principles

The purpose of welfare reform should be to encourage self-support; strengthen families; provide adequate subsistence resources; reduce the stigma associated with the receipt of benefits; simplify and make more efficient the administration of the system; promote social and economic justice; and build national pride.

Your advisers agree on the following principles which support that goal.

1. Simplify administration and introduce efficient systems management.
2. Provide incentives that promote family stability.
3. Ensure that no non-working family will have higher income than a comparable working family.
4. Provide a minimum Federal benefit for those who are unable to provide adequately for themselves.
5. Redirect CETA public service employment and training to the low-income population.
6. Provide fiscal relief to local and State governments as soon as resources permit.

B. Program Elements

Your advisers, except as noted, also agree on each of the following program elements which, in turn, rest on these principles.

1. Welfare reform must ensure that all low-income households are assisted equitably - At present, many low-income households receive little assistance, while other households with similar needs qualify for benefits worth several thousand dollars per year. This inequity occurs because:

- benefits vary widely from state to state,
- some groups (e.g., non-aged two-parent households) are eligible for fewer benefits than other groups (e.g., one-parent households).

2. Welfare reform must ensure that low-income families are given every incentive and opportunity to work their way out of poverty. To provide this incentive and opportunity:

- work must pay, and
- jobs must be available to low-income households to the maximum feasible extent.

Work pays when increases in income are not erased by reduced benefits as often occurs now. Benefit reduction rates under a new system should be held down to 50 percent or less. To make jobs readily available:

- a full employment economy is essential; and
- a large number of existing public service jobs should be created and targeted on households that would otherwise be eligible for cash assistance.

There is not agreement within the Administration as to whether we should treat the \$6-9 billion currently budgeted for the CETA program -- but scheduled to be phased out in 1979 -- as available for zero cost welfare reform. Marshall and I support retention of these funds. Lance does not. Without this \$6-9 billion, neither proposal discussed below would be zero cost.

3. Welfare reform must reduce and consolidate the large number of poorly coordinated, administratively complex welfare programs that have grown up over the years.

- o At a minimum, AFDC, SSI, and Food Stamps (\$17.3 billion in FY 78) should be replaced by one or more new cash assistance programs.
- o No consensus exists on whether Extended Unemployment Insurance (between 26 and 39 weeks) Section 8 Housing Assistance, and the Earned Income Tax Credit should be consolidated as well.

The objective of consolidation is to make programs simpler to understand for legislators, administrators, recipients, and the American people. Such consolidation can, over time, reduce significantly the number of workers - now 250,000 - required to administer these programs.

4. Welfare reform must assure national benefit standards for all classes of recipients wherever they may live in the United States. At present, states may set whatever benefit they wish under AFDC, and in fact, benefits vary from \$720 per year for a family of four to \$5,900.

- o In addition to such basic Federal benefits, some federally-financed variation may be desirable to take account of differences in the cost-of-living or in living standards. The desirability and manner of effecting such variation has not been worked out.

- o States must be encouraged to supplement benefits, perhaps to the extent of their present welfare payments, in order to prevent present beneficiaries from suffering large benefit reductions. The integration of state supplements with federally supported benefits has not been worked out. Discussion with the Governors before resolution of this issue is desirable.

5. Welfare reform must improve the tests for eligibility. Two technical issues relating to eligibility have great practical significance.

- o Filing Unit - The unit within which economic decisions are made customarily is the household (consisting of all persons related by blood or marriage). But existing programs pay benefits to individuals or sub-families with low incomes even when they reside in households with substantial incomes.
- o Accountable Period - The well-being of most families depends on income received over a number of past months, but existing programs base payments on expected income or income only in the previous month, and often continue to base payments on this income for several months into the future.

Both of these shortcomings in the measurement of need have inflated costs in the present system

- by providing assistance to individuals or small clusters of people with little income who reside in more comfortable households, and
- by providing as much assistance to households that are only briefly poor as to households who are enduringly poor.

To meet these shortcomings, it is agreed that need (a) should be based on the income of the entire household (extended family), and (b) should be measured over a period longer than just one month. These two changes have significant financial impact.

A cash assistance system based on the household and measuring income over the preceeding 6 months that costs \$20 billion would cost roughly \$30 billion if based on individual and nuclear family units and income in the preceeding month only. These two administrative changes in the filing unit and the accountable period are the key to welfare reform when resources are limited.

Changes in the filing unit and accountable period have two important implications:

- o They are a principal reason why these proposals make some current recipients worse off. In particular, most current SSI recipients who live in larger households would receive reduced benefits.
- o These changes will increase the importance of providing an emergency needs program.

II. OUTSTANDING ISSUES

The three basic areas of disagreement among your advisers concern:

- whether we can rely on the government's ability to guarantee jobs and training slots for families with children (otherwise eligible for cash assistance), that contain a member considered able to work.
- whether cash assistance should be provided through a single program with benefits varied only by income and family size, or through several separate programs for different categories of households, such as families with and without children.
- whether cash assistance should be provided through a single administrative agency or through two or more administrative agencies.

Guarantee jobs?
Single program?
Single agency?

The three issues are closely related, but the guaranteed jobs issue is key. This decision changes considerably the nature of the debate over the other two issues. For example, if a job is guaranteed for some groups, it becomes easier to defend the fairness of separate cash assistance schedules for those groups. For another example, the decision on benefit standards largely determines the decision on administrative structures. If all those in need are to be offered some supplementation based only on income and family size (presuming, of course, that they fulfill the conditions of a work requirement), then the arguments for a single administrative structure for cash assistance are much stronger.

A number of other major issues remain unresolved. A brief description of some of these is attached at Tab B.

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III. ALTERNATIVE STAFF PLANS

These agreed upon principles and program elements are present in the two alternative staff plans discussed below. I have drawn these alternatives sharply to aid understanding and analysis. I believe elements of each should fold into an ultimate plan, and I believe you must avoid being drawn into such sharp alternatives or using traditional code words in your public statements. A more complete description of these plans is attached at Tab A.

A. Consolidated Cash Assistance. This plan would:

- o emphasize employment -- primarily private sector employment -- as the most important source of income.
 - work registration: all persons expected to work (e.g., able-bodied adults without child care responsibilities) would be required to register for job placement services; any person refusing a job offer would be denied cash assistance payments
 - public service jobs and training: CETA jobs and training would be redirected, gradually and to the extent possible, toward recipients of cash assistance; but this plan would not depend on an immediate guaranteed jobs programs
 - target health treatment and basic education resources on that portion of the poor that is functionally illiterate or needs health care to be prepared for work.
- o consolidate cash assistance in one program with benefits based on household size and income (with a separate benefit structure for the aged, blind, and disabled).
 - covers all low-income persons
 - denies coverage to those who refuse to work
 - filing unit includes all related persons living together
 - basic benefit of \$4350 (for a family of four) with a 50 percent reduction rate for earnings (60 percent for public service employment earnings); if a family of four has earnings of \$5200 (full-time minimum wage), the supplement would be \$1750. ?
- o consolidate administration of Federal cash assistance in a single agency; all registration for work or training through another single agency (Employment Service).

B. Assured Jobs or Cash Assistance. This plan would:

- o guarantee a public service job or training slot to all households --
except those composed of single individuals and childless couples --
that contain a member deemed able to work and not privately employed.
- o multiple-track cash assistance
 - cash assistance through a single program with benefits based on household size and income
 - . covers households with no member expected to work plus households comprised of single individuals and childless couples, plus families where primary earner has refused public job offer.
 - . filing unit includes all related persons living together
 - . benefit structure identical to HEW staff plan
 - earned income tax credit
 - . covers families with children not on welfare track
 - . benefit increases with earnings up to \$5200 (at 8.2 percent per family member up to 41 percent) and decreases with income above \$5200 (at 12.5 percent per family member up to 60 percent). ?
 - special unemployment benefit is \$4300
 - . plus a supplement equal to 4% per family member.
 - . benefit reduced at 100 percent of recipient's earnings, but unrelated to other household income
- o manpower track (guaranteed job, training stipend, or special unemployment assistance)
 - covers families with no person earning over \$5200.
 - guaranteed job wage is \$5200
 - training stipend is identical to special unemployment benefit
- o multiple program administration: separate agencies for cash assistance; earned income tax credit; training and placement; and guaranteed jobs programs.

IV. THE DISPUTED ISSUES IN GREATER DETAIL

ISSUE ONE

Can we rely on the ability of the government to guarantee jobs or training slots for families with children containing a member expected to work?

Labor Staff View:

The Labor Department views job creation as central to welfare reform and believes that the Federal government can guarantee a job (or training slot) to all low income households containing at least one child and an adult expected to work. The Labor Department believes that for a welfare program to be acceptable to the public and Congress that program must:

- separate those who can work from those who cannot, and
- provide jobs and training for employables.

Labor estimates such a job guarantee for families with children would require the creation of 1.4 million public jobs (and training slots), assuming an unemployment rate of 5.5 percent.

The jobs to be created (full-time at the minimum wage) would be financed from (1) CETA funds (including expansions proposed as part of the economic stimulus package) and (2) welfare benefits for those who would work but are now on welfare. Jobs would be provided to:

- one member of most two-adult households with at least one child, (including 140,000 families now eligible for assistance under AFDC-UF);
- one-adult households with at least one child but no child under 12, (including those now on AFDC);
- heads of one-parent families with at least one child under 12 who volunteer for work or training.

In support of their approach, the Labor Department cites: (1) the new Congressional requirements targeting CETA jobs toward those most in need, (2) experiences with Operation Main Stream and the Green Thumb Program, both of which were over-subscribed, and (3) Manpower Development and Training Act and the Emergency Employment Act welfare demonstration projects.

Labor believes that their approach is preferable to HEW's because universal cash assistance would weaken work incentives and, therefore, make the job program that accompanies any cash program harder to administer. Further, the Department of Labor believes work registration requirements are, and will continue to be, unworkable.

HEW Staff View

HEW staff agrees that:

- emphasis on employment is an essential feature of any welfare reform proposal and
- CETA jobs and training should be redirected to households that would otherwise be dependent on cash assistance.

HEW questions whether we can be confident that the goal of guaranteeing a job to all low-income households with children and with members expected to work could be met or could be met without serious adverse consequences.

The reasons are:

1. The largest existing public jobs program has created only 300,000 jobs (only 45,000 of which went to those on public assistance). The Labor Department staff proposes to create 1.4 million slots, a five-fold increase in the number of jobs and a ten to twenty-fold increase in the number of current AFDC recipients who would hold such jobs. Labor's proposal would double the 725,000 CETA slots proposed in the President's fiscal stimulus package.
2. HEW doubts that sufficient minimum wage jobs can be created without coming into competition with existing jobs with higher prevailing wages. Organized labor shares this doubt and would strongly oppose any plan that threatened to undercut wages on existing jobs. State and local government would also oppose a reduction in CETA wage levels.
3. Implementation of the job guarantee would require the rapid creation of a large number of jobs, would increase the chances of sloppy administration, hastily devised slots, allegations of "make-work," and increase chances of scandal.
4. Job expansion must be planned carefully and monitored closely. A system of assistance not dependent on jobs and training must be available to insure assistance to the needy if it turns out that jobs in the public and private sector cannot be developed as quickly as we all hope.
5. The Labor staff proposal does not permit employable single individuals and childless couples to take guaranteed jobs, but these are the persons that society most expects to work. The Labor staff proposal would provide only cash assistance to this group regardless of their ability to work.

6. While adding only one percent to the U.S. labor force, eligibles in the DOL proposal will be geographically concentrated (e.g., 15 percent of households in New York are on welfare). In such areas the labor force will be expanded by perhaps ten percent. This would put extreme pressures on state and local government in such areas to expand their work force.

HEW strongly believes the income supplementation system should not be predicated on our ability to deliver on a guaranteed jobs program.

ISSUE TWO

Should the amount of cash assistance payments depend only on income and family size or should the amount of assistance depend on such other characteristics as the presence or absence of children or of someone expected to work?

The major alternatives are:

- o Consolidated Benefit Structure - The consolidated benefit structure determines cash assistance on the basis of income and household size. Higher benefits would be paid to units composed only of aged, blind, or disabled people.
- o Multiple Track Structure - A variety of multiple benefit plans exist. All are predicated on the idea that a different structure of cash assistance is appropriate for different groups. Generally, three tracks are established:
 - (1) Welfare Track. Households with no member expected to work (e.g., the disabled), and single individuals and childless couples are eligible for cash assistance, and benefits will vary by income and household size.
 - (2) Working Poor Track. Households with children and at least one able-bodied adult without child care responsibilities, are ineligible for the welfare track and, instead are eligible for an Earned Income Tax Credit, with benefits that increase with earnings (up to a certain level of earnings) and decrease with income (above a certain level of income). This benefit may also be related to family size. It has the advantage of appearing not to add private sector workers to public assistance rolls.

- (3) Manpower Track. Households with children and with a member expected to work but unemployed are eligible for a special job or training. If neither a job nor a training opportunity is available, then the eligible person would receive a training stipend related to family size and other family income. For those actually in training or a special job, the wage or training stipend would be supplemented by a special allowance based on family size.

Arguments in favor of a consolidated benefit structure are:

- o It is fair because assistance is related to income and household size. If a job cannot be provided, the level of assistance does not depend on the presence or absence of a person expected to work.
- o It is easy to understand for both recipients and taxpayers.
- o Simple program structure lends itself to administration with a minimum of fraud, error, and abuse. Modifications can easily be made and understood.
- o It assures reward from work effort. The moderate benefit reduction rate on earnings in the HEW staff plan means work pays. It assures that households with higher earnings have higher income (earnings plus assistance).
- o It requires those expected to work to seek and accept available jobs. This reinforces work incentives and assures program integrity.
- o It does not require classification of recipient units for purposes of cash assistance. Some individuals are required to work, but the family unit does not have to switch cash assistance programs as the composition of the household changes.
- o It is easily used to correct for the adverse distributional impact of other public policies. For example, energy tax rebates could be easily integrated with a consolidated assistance structure.

Arguments against a consolidated benefit structure are:

- o It may reduce work effort. Income maintenance experiments suggest some reductions primarily in overtime, second jobs, and among secondary workers. Voluntary reductions in earnings from this program could amount to about \$3 billion. The \$1.5 billion increase in program costs resulting from this reduction in earnings is included in the estimated costs of consolidated cash assistance.

- o It may be attacked as expanding the "welfare rolls" by providing cash assistance to people expected to work. It would require asset tests and monthly payments to over 10 million American families. Although few (if any) would be newly eligible for assistance—Food Stamps covers the same population—many would be newly eligible for cash assistance.
- o Administering monthly payments to millions of families with changing incomes and family circumstances will not be easy.

Advantages of the Assured Jobs and Training Proposal are:

- o Fairness and political considerations require that cash assistance for those expected to work differ from cash assistance for those not expected to work. The poor have different needs and earning capacities, and these should be recognized and treated differently.
- o Separate and different benefits to those expected to work might not be attacked as welfare.
- o The Earned Income Tax Credit encourages work effort. It provides a bonus related to earnings of low income workers.
- o Multiple track assistance is less of a break with the current system. Households continue to be categorized by the expectation of work from individual family members. In addition, the EITC expands a current program.
- o It is flexible. Separation of assistance structures allows benefits and income definitions to vary among three categories of families. For example, it is possible to allow a family on welfare to keep all of the first few dollars it earns while taxing the earnings of a family with two parents 50 percent or more. Also it is possible to adjust the income supplement for families in high wage public jobs so that the equivalent of prevailing wages can be paid.
- o It relates assistance to work for those expected to work. EITC dependent on having a job; training stipends improve employment prospects; special unemployment benefits would be temporary until guaranteed job is provided.
- o Most of the income from these jobs is directly attributable to the wage rather than an income transfer.
- o It provides full time jobs at the minimum wage.

Disadvantages of the Assured Jobs and Training Proposal are:

- o Participation in the special public job can be abruptly ended if the worker's spouse were to increase earnings from under to over \$5200 per year (i.e., there is a "notch").
- o The cash net is complex and difficult to administer. If job creation should be less than needed, the resulting cash assistance system is not one that we would find desirable on its own merits.
- o While the Assured Jobs program could reduce stigma for those put to work, it could in addition add to the stigma of those dependent groups that remain in the welfare track.
- o Multipple tracks are difficult to understand and more complex to administer.
- o It requires classification of recipient units, which leads to problems when a person expected to work joins or leaves the family, a frequent occurrence in low-income families according to recent studies.
- o Multiple administrative structure require duplication of administrative effort and much information exchange. When households change tracks, benefits must be integrated among the various tracks.
- o It would reduce work effort. Some of those expected to work would face high benefit reduction rates in the EITC (60% for families of five or more). Singles and childless couples receive cash payments and are not subject to a work test.
- o Senator Long would probably oppose relating EITC benefits to family size. If this cannot be done, assistance to the working poor would be reduced, because Food Stamps would be unavailable to families with children.

ISSUE THREE

Should cash assistance be administered through a single agency OR should separate agencies serve households that differ in demographic and employment characteristics:

The discussion of Issue two examined differences in benefit schedules. Issue three considers differences in administrative structures. To a considerable extent, its resolution depends on the resolution of the benefit schedule issue.

Those who advocate consolidation of cash assistance favor consolidation of administration . They hold that consolidated administration:

- Holds down administrative costs and reduces errors.
- makes it easier for beneficiaries whose family composition changes to deal with the assistance system.
- facilitates the use of a broad filing unit and a long period over which income is measured in determining need, both of which are essential if welfare reform is to be at zero or small net cost. These changes are also desirable to focus resources on those most in need.
- increases the Federal government's opportunities to move forcefully to reduce fraud and abuse.
- eliminates separate treatment of certain demographic groups which, along with the paternalistic and error prone tradition of welfare administration, are a major source of stigma that current recipients face.

Those who advocate administration through two or more agencies use the same arguments as do those who advocate multiple benefit structures. They hold that:

- if a single benefit structure is used, the stigma that attaches to welfare will also apply to those who do or can work, and that separate administrative units circumvent this problems.
- advocates of consolidated administration exaggerate the administrative savings that can be achieved.
- the income security system should recognize demographic and employment categories, and to the extent possible administrative structures should be consolidated, so that people who have certain characteristics (e.g., the elderly) have to deal with only one administrative structure.

The DOL staff proposal envisions the following five administrative structures:

- o New Federal payment apparatus for welfare program: probably a new agency in HEW that reports to the SSA Commissioner.
- o New Federal payment apparatus for Revised EITC: could report to the IRS Commissioner parallel to the tax apparatus or constitute a new agency in the Department of Treasury.
- o New Federal-State arrangement for Assured Jobs and Training Stipend: might be accommodated within the existing Federal-State Employment Service or it might require an entirely new Federal-State agency structure in DOL.
- o State payment agencies for Emergency Assistance and State Supplements: Because households will switch frequently between Federal payment systems it would be infeasible for a Federal agency to administer any state supplements. Thus, State supplement payments, along with Emergency Assistance payments, will constitute a separate, state-operated system.
- o Federal-State Employment Service: will continue to provide placement services and employment counseling, and will enforce the work test for single individuals and childless couples receiving welfare payments.

The HEW staff proposal envisions the following three structures:

- o New Federal payment apparatus: could be located within either HEW or Treasury.
- o Federal-State Employment Service: would administer the program's work test, help recipients find employment in the private sector, provide employment counseling services, and work with CETA prime sponsors to provide public service jobs when private sector jobs are unavailable.
- o Residual State Welfare. The states will continue to have an important role in the form of administering emergency assistance payments. It will also be important for most states to supplement Federal assistance levels for the

current SSI and AFDC populations in order to assure that benefits for those populations are not significantly reduced. This will decrease the amount of fiscal relief. In some instances, if states choose to have congruent and easily administrable state supplements, the Federal apparatus could make both Federal and state payments to the same households.

Advantages of HEW Staff Plan:

- o Holds down administrative costs.
- o Consolidated benefit structure and payment system enhances ability to control fraud and error.
- o Might reduce stigma by removing dependency tests and avoiding categorization. All recipients treated same under standardized and objective criteria.
- o Makes it easier for beneficiaries whose family composition, employment status, or child's age changes to deal with assistance system. Low-income household are not required to diagnose complicated eligibility rules, find the correct track, and switch tracks when status changes.

Disadvantages of HEW Staff Plan:

- o Potential for insufficient administrative control over state and local employment component of HEW plan.
- o Does not permit maximum integration of cash assistance with manpower and service delivery systems.

Advantages of DOL Staff Plan:

- o Different administrative structures might remove stigma for those who are expected to work. (This advantage does not apply to single individuals and childless couples who are on the welfare track.)
- o Depending on role of Employment Service, could be easier to administer and control work test.
- o The programmatic and political gains resulting from separate structures could outweigh the increased complexity in administration.

Disadvantages of DOL Staff Plan:

- o It is doubtful whether Congress would legislate a structure that would make certain groups -- the aged, blind and disabled, single mothers with young children -- categorically ineligible for welfare because an able-bodied adult relative between the ages of 18 and 65 moves into the household. These problems can be overcome only by moving to a smaller filing unit, a modification that increases costs by \$1 1/2-5 billion.
- o Separate administrative structures may force the DOL plan to a shorter accountable period since families who change tracks are required to reconstruct their income histories over a long (e.g., six months) period according to different intake procedures and according to different eligibility rules. Shorter accountable periods and a small or filing unit can increase costs by as much as \$10 billion and increase percentage of U.S. population covered by payment programs by 30 to 40 percent.
- o Disbursement procedures for the EITC make it unresponsive to changes in family size and income fluctuations. Administrative problems when households switch tracks may be serious.

A recent update of a 1974 IRS Task Report on the Administration of an Income Maintenance Program and other analyses indicate that administrative costs of the HEW staff proposal, as currently specified, would be roughly 6-8 percent of total program costs (compared with 9 percent under AFDC).

TAB A

THE HEW STAFF PLAN

Program Description

The Filing Unit would consist of all relatives sharing the same household, except when separate economic status could be shown by a sub-family or individual. Those Expected to Work would include all adults in the filing unit who are not disabled, aged, incapacitated or a single-parent with a child under 12.

Work Registration Requirement. All individuals expected to work and not working at least some minimum amount must register for work. This regulation would be administered by a State agency under Federal guidelines. Individuals for whom a private job cannot be found would be offered a PSE job if one were available.

PSE Jobs. The jobs within CETA would be at close to the minimum wage, and would be for 30 hours a week (6 hours a day) to allow time for job search. Annual wages would be approximately \$3,750. Together with the cash supplement (see below) to which a four-person household would be entitled, total income would be \$6,225 per year. Earnings from these jobs would reduce benefits in the cash assistance program by 60 percent. This higher rate provides an incentive to move to a private job.

Number of Jobs. There may be practical limits on the number of jobs that can be created. In addition, this component would be closed-end funded. Clearly, the extent of coverage of the work requirement would be funded. In the absence of a sufficient number of jobs to accommodate the entire eligible population, jobs would be rationed by a priority ranking of various groups. This ranking would be:

1. volunteers
2. members of two-parent families
3. single-parents with no child under 16
4. single-parents with no child under 14
- etc.

Failure to Accept Work. If an individual who is expected to work does not accept a job, either private or PSE, the benefit to the unit would be reduced by the first person's benefit, or \$1,525 in the absence of other income. For example, the benefit for a family of four with no other income would be reduced from \$6,225 to \$2,825, if a CETA job were refused -- a loss of \$3,400 from job refusal. The work test is strict in the sense that anyone whom a job can be provided must face the alternative of accepting the job or losing benefits.

The Benefit Structure would give a two-person unit with no other income twice the benefit of a one person unit. Each additional member would add \$650 to the unit's benefit. Units consisting solely of the aged, blind, or disabled (i.e. current SSI recipients) would receive a larger benefit.

<u>Family Size</u>	<u>1976 Dollars</u>
1	\$ 1525
2	3050
3	3700
4	4350

Units consisting of aged, blind, or disabled persons

1	\$ 2300
2	3500

Benefits for the aged, blind, and disabled dominate those of SSI plus Food Stamps, so people in this population who are living as separate units will suffer no reduction in benefits. The benefit for a family of four, \$4,350, is approximately 75 percent of the poverty line.

Benefit Reduction Rates. Benefits would be reduced fifty cents for every dollar of earnings from private employment and other private sources, and sixty cents from PSE income. With the exception of State supplements, benefits from other government income maintenance programs would reduce this program's benefit dollar for dollar after an initial disregard of \$20 a month. (The disregard would not apply to benefits from other means-tested programs.)

Assets Test. An assets test or an imputation to income from assets would insure that persons with access to substantial resources would not be eligible to participate.

Accountable Period. The accountable period would be six months. While benefits would be calculated monthly, income above the breakeven level in any month would be carried forward for possible reduction of benefits at some point during the subsequent six months. After six months, any excess income not yet counted would be forgotten.

Administrative Structure

The HEW staff proposal envisions one, unified Federal cash assistance administration. The Federal-State Employment Service would operate the work test, provide other services, and work with CETA prime sponsors to place low-income workers in private jobs, if possible, and public jobs, if necessary and as available. A reduced state welfare system would provide Emergency Assistance payments and, under some conditions, state supplement payments.

- o New Federal Payment Apparatus. The new Federal responsibility for the Consolidated Cash Assistance program could not be accommodated within the existing SSA or SSI systems. A new payment apparatus would have to be created. (This assessment is based on a joint IRS-HEW

Study in 1974.) This apparatus could be a new agency in Treasury or HEW, or it could report parallel to the tax system to the IRS Commissioner or parallel to OASDI to the SSA Commissioner. The bureaucratic location issue need not be addressed at this time.

- o Federal-State Employment Service. The State Employment Service would administer the program's work test, help recipients find employment in the private sector, provide employment counseling services, and work with CETA prime sponsors to provide PS jobs when private sector jobs are unavailable.
- o Residual State Welfare. The states will continue to have an important role in the form of Emergency Assistance payments. Some states might also choose to continue their AFDC and SSI state supplement programs with little or no change. In those cases, the Federal government could not "piggy-back" the administration of these state programs. In other instances, when the state chose to have congruent and easily administrable state supplements, the Federal apparatus could make both payments.

THE DEPARTMENT OF LABOR STAFF PLAN

Program Description - This approach proposes three categorical programs: (1) a job entitlement, (2) cash assistance, and (3) an earnings subsidy. One public job would be offered to extended families with at least one child under 18 years of age and an able-bodied adult between 18 and 65 years of age. Training would be offered as an alternative to jobs, or if jobs could not be created for all applicants. An option of cash assistance would also be offered to extended families with only one able-bodied adult between 18 and 65 years of age and with the youngest child under 12 years of age. The only option offered to extended families with no children would be cash assistance. Extended families not receiving assistance under the cash program and with at least one child would be eligible to receive an earnings subsidy based on the unit's earnings and size. The amount of the subsidy on earnings from entitled jobs would be less than on earnings from regular jobs.

Filing Unit - The filing unit for all three programs would consist of all relatives sharing the same household.

Job Program Eligibility - Eligibility for a special public job would be provided to all extended families with at least one child (under 18 years of age) and at least one able-bodied adult between 18 and 65 years of age. Persons must be unemployed five weeks prior to being eligible and extended family units would be subject to a strict asset test. There would be no income test except that if anyone in the household has earnings above \$5,200, the unit is ineligible for a special public job.

Jobs Benefit Structure - Earnings on the special public job would be at a minimum wage for 40 hours per week. After 52 weeks in a special job a person would receive intensive job search assistance for 5 weeks. The person would then be eligible to return to the special public job. The PSE wage rate would be the minimum wage (projected to be \$2.50 per hour). The annual wage would be \$5,200 plus a supplement of 4 percent per family member to be paid through the Department of Labor.

Number of Jobs - 1,400,000 jobs and training slots would be provided within three years by retargeting most of the funds projected to be spent during FY 1978 through Titles I, II, and VI of the Comprehensive Employment and Training Act. The Labor Department estimates that this number of jobs would serve all two parent families with children and all one parent families with no child under twelve. Some jobs might be available for one parent families with children under 12 who volunteer for work or training. None would be available to single persons or childless couples.

Failure to Accept Work - If the primary worker does not accept a special public job, the job would be offered to the able-bodied adult expected to work with the next highest earnings. Periodic redeterminations would insure that if another family member became employed in the private sector with greater earnings than those from the special job, the unit would lose eligibility for the public job. If only one member expected to work is present and that member refuses the public job, then the unit would be eligible for the cash assistance program.

For a couple with two children (disregarding one adult) the welfare payment would be \$2,800, or \$2,400 less than the PSE wage and \$1,500 less than the training stipend. For a couple with four children, the differences are \$1,075 and \$175 respectively.

Training-Benefits - Training slots would be provided as an alternative to jobs. Training slots would have a minimum stipend equal to the 4 person guarantee in the cash program (\$4,350), plus a supplement equal to 4 percent per family member to be paid by Department of Labor.

Earned Income Tax Credit - All extended families with at least one employed adult member between 18 and 65 and a child would be eligible for the Earned Income Tax Credit (EITC). Extended families receiving cash assistance would be categorically ineligible for the EITC even if they worked, as would single persons and childless couples.

The EITC would vary by family size up to a maximum of 5 persons. The credit would be 8.2 percent per family member on gross earnings up to \$5,200; each dollar of earnings in excess of \$5,200 would decrease the maximum EITC by twelve and one-half cents per family member. The EITC would be administered by IRS. The accountable period would be the calendar year, and units could file for quarterly payments.

Benefit Reduction Rates Under the Jobs Program - PSE wages would not be reduced if the job holder moonlights. Nor would PSE wages be reduced if other family members worked; but if another family member earned more than \$5,200 the PSE job holder would lose eligibility for his job. In contrast, training stipends would be reduced dollar for dollar by the trainee's earnings - a 100 percent tax rate - but would be unaffected by any other income in the household after initial eligibility. The earned income tax credit would rise with earnings up to \$5,200 at rates that vary from 12-1/2 to 62-1/2 percent of earnings depending on family size.

Cash Assistance Program Eligibility -- Eligibility for cash assistance would be provided to (1) unrelated individuals, (2) childless couples and extended families with no children under 18 present, (3) extended families with only one able-bodied adult between 18 and 65 years of age and with the youngest child under 12 years of age, and (4) extended families with children with more than one able bodied adult who is present when adults expected to work refuse the public service job option (rest of unit, minus those adults, is a welfare track unit). An assets test would insure that extended families with access to substantial resources would not be eligible for the welfare track.

Remaining households -- those containing more than one adult deemed able to work, but for whom no private or public job or training slot can be provided -- will not be eligible for assistance from the welfare track, but such households will be eligible for cash assistance paid in the same form and by the same agency that provides training stipends.

Cash Assistance -- Benefit Structure, Benefit Reduction Rates and Accountable Period -- The four categories of households listed above would be eligible for the same cash assistance, varying with family size, earnings, and other income, as is provided under the HEW staff proposal. Benefit reduction rates and accountable period would also be the same. Households with a member capable of working who are provided neither a job nor training are nonetheless eligible for a "training stipend" of \$4350 that does not vary with family size. This stipend, like ordinary training stipends, is reduced dollar-for-dollar by earnings of the person on whose behalf the "stipend" is being paid, but is not affected by earnings of other household members.

Administrative Structure

In the DOL proposal, four or five agencies (depending on the role of the Employment Service) would administer the three/four cash payment programs, an assured jobs program, and the Federal-State Employment Service (responsible for the work test on single individuals and childless couples and for placement services).

- o New Federal payment apparatus for welfare program. The substantial addition of cases to direct Federal responsibility would necessitate a new payment apparatus being created. The new task could not be accommodated within the existing Social Security Administration (SSA) or Internal Revenue (IRS) payment structures. The new apparatus could be a new agency in HEW or a new apparatus that reports to the SSA Commissioner parallel to Social Security (OASDI).

- o New Federal payment apparatus for Revised EITC. The revised EITC departs so substantially from the positive tax system in household definition, disbursement procedures, and other criteria that HEW believes -- based on a 1974 joint IRS-HEW study on the administration of an income maintenance program -- that it could not be accommodated within the current tax system. The new apparatus could report to the IRS Commissioner or constitute a new agency in the Department of Treasury. The Department of Labor believes that this revised EITC could continue to be administered as part of the tax system.
- o New Federal-State arrangement for Assured Jobs and Training Stipend. This task might be accommodated within the existing Federal-State Employment Service or Federal-State Unemployment Insurance system, or it might require an entirely new Federal-State agency structure in DOL. It has been suggested that the apparatus responsible for Assured Jobs and the Training Stipend might make the EITC payments to units in a PS job slot.
- o State payment agencies for Emergency Assistance and State Supplements. Because households switch frequently between the EITC and welfare payment systems it will not be possible for a Federal agency to administer any State supplements under any feasible conditions. Thus, State supplements along with Emergency Assistance payments, will constitute a separate, State-operated system.
- o Federal State Employment Service: This system will continue to provide placement services and employment counseling.

TAB B

UNRESOLVED ISSUES

Several issues remain to be addressed in both proposals. They are:

- o The role of State Supplements for the current AFDC and SSI Caseloads. In the HEW staff proposal, this issue has both administrative and fiscal dimensions, including the conditions under which the Federal payment apparatus might administer state supplements. In the DOL staff proposal, Federal administration of state supplements would be infeasible. This is because households who are eligible for state supplement payments will switch frequently between the EITC and welfare payment systems. In both proposals, the issue of Federal financial participation in state supplements exists -- for example, should the Federal government "hold harmless" states for state supplement expenditures when these exceed the state's old share in AFDC plus SSI state supplements?
- o Fiscal Relief. If we assume that states would supplement their AFDC and SSI populations up to current levels, the proposals, as currently specified within the zero cost constraint, would give fiscal relief only to a very few jurisdictions -- low benefit AFDC states in the South, and states with generous General Assistance programs (principally New York). More resources devoted to the basic Federal programs(s) will increase fiscal relief to states (assuming the states have supplement programs). Another, more effective means of granting more fiscal relief lies in the design of the "hold harmless" formula for state supplements.
- o Administrative Feasibility. Before endorsing any new transfer or job programs, a detailed study of administrative feasibility should be undertaken. Such a study has already been completed and updated for the HEW proposal. The DOL proposal has not been submitted to such an analysis.
- o Administering Agency. The question of which agency(ies) will have administrative responsibility must be quickly resolved so that the selected agency(ies) can gear up to carry on the next phase of the planning process. It is estimated that lead time of 3-4 years would be required between introduction of legislation and final implementation. Since the program(s) is/are administerable by either an existing agency(ies) or a new one(s), the question of where the responsibility is lodged must rest on grounds other than administrative consideration. A related issue is to what extent should existing state welfare agency field operations be used, as opposed to a completely Federalized system?

- o Inflation proofing. The issue is whether the system should automatically adjust benefits to reflect changes in the cost-of-living or whether the change should be discretionary. There are three alternatives:
 - (a) Automatic changes based on changes in a specified cost-of-living index.
 - (b) Automatic changes with option for Congressional veto. In this case the Congress would be informed that the system will be adjusted by the appropriate amount. The Congress would then have a specified period in which to disapprove the change.
 - (c) Fully discretionary, with established periodic reviews of the need for adjustment but no requirement to take action.
- o Relationship to health care. Currently, cash assistance and health care are closely linked. The Medicaid issue will have to be addressed in the next month before any legislation can be prepared.
- o Relationship to social services, including day care. Delivery of cash assistance and social services, including day care provision, are intertwined in the AFDC program. Moving to a system of a new Federal cash assistance program(s) will involve at least some separation of these activities. This will raise an issue of co-location and referral that will have to be carefully addressed. Additionally, since any alteration in the welfare system will include a strong job emphasis, additional resources for day care may be required.
- o Puerto Rico, Guam and the Virgin Islands. A policy decision must be made regarding the treatment of these outlying territories with respect to welfare reform. Because of the special characteristics of commonwealth or territorial status, there is a question as to how welfare in these areas should be financed. Uniform benefit levels will be difficult to set because of cost-of-living differences, and territories may view such a program as an encroachment on their autonomy.

The basic alternatives are:

- (a) Continue the current welfare system in the territories, as was done when SSI was enacted.
- (b) Extend U.S. financial sharing to a local welfare reform program.
- (c) Include the territories with U.S. , perhaps at reduced benefit levels.

- o Non-resident children 18-21 years old. Under the filing unit rules adopted in both proposals, children who reside with their parents, regardless of age or marital status, would be included in a larger unit with the rest of the family. Non-resident children who are under 18, not married and without children of their own must also file with their parents. The decision that remains is whether to extend that requirement to include non-resident children up to 21, or up to 21 if still in school. The decision has significant cost implications.
- o Institutional population. Should individuals in institutions such as long-term care facilities be covered by the new system, or should they be categorically ineligible and covered in special programs that are oriented to institutional settings?

TAB C

ADMINISTRATION OF CONSOLIDATED CASH ASSISTANCE

In 1974, a task force, directed by the Internal Revenue Service and with members from HEW and Treasury, completed a study of the administrative feasibility of a welfare reform proposal structured very similarly to Consolidated Cash Assistance. The task force report concluded that:

- o The benefit payment portion of the proposal is administratively feasible, both in terms of the proposal's goals of objectivity, simplicity, and universality, and in terms of the IRS' standards of program integrity;
- o Estimates of personnel and other resource needs compare favorably to IRS manpower and administrative resources devoted to revenue collection; and
- o The proposal has no operational program design feature that would either require or preclude the selection of one agency rather than another to assume operational responsibility for the program; it could be administered by an existing agency, such as IRS or SSA, or by a newly-created special purpose agency.

Conditions Affecting Administrative Feasibility

The task force made recommendations on four elements of the welfare reform proposal with potentially important implications for its administrative feasibility.

- o Filing Unit Rules: As a general presumption, all individuals related by blood, marriage, or adoption who live in the same household would be regarded as members of a single unit for purposes of benefit determinations. This departure from the tax system is necessary because it is the income of a family or household that is the single best measure of the need of its individual members. Any alternative that would attempt to measure the actual extent of income pooling and joint consumption among individuals within a household would be administratively infeasible and intrusive.

- o Income Definition: The definition of income to be counted in the calculation of benefits would include all gross receipts in cash or in kind from any source, with the exception of a very few types of receipts specifically identified as excludable. Using this approach the definition of income would be very broad, including items such as Social Security benefits and gifts that are not treated as income for Federal income tax liability. Few expenditure deductions from income would be permitted in the computation of benefits. There would possibly be a standard deduction or percentage standard deduction to allow for work expenses, but itemized deductions of work expenses (as under most current welfare programs) would unnecessarily complicate the administration of the program without increasing its equity.
- o Assets Test: In addition to having to meet the principal criterion of income eligibility, a filing unit could not own more than a specified dollar amount of certain types of assets (excluding owner-occupied home, one automobile, and household and personal effects). The exclusions are based on considerations of administrative feasibility and accepted social views regarding housing and essential personal property. The fair market value, net of applicable encumbrances, of the household's nonexcluded assets could not exceed certain benchmarks determined by the size of the filing unit. This approach is of necessity arbitrary. However, the alternative of imputing income from nonexcluded assets, while theoretically more equitable, would entail considerable administrative complexity.
- o Accounting System: The program would consider eligibility based on a moving 6 month period. All determinations would be retrospective, that is, based only on income for the previous 6 months. These two features, a moving six month period and retrospective reporting, in combination with a method of accounting for the income stream called the "carry forward," provide the best possible compromise among the competing objectives of equity, responsiveness to change in family income and composition, and administrative efficiency. In order for the preferred accountable system to function with reasonable responsiveness, each recipient unit would be required to report either once every month or once every three months, depending on the constancy of its income.

In addition, the task force identified three conditions which should be adhered to in order for the proposal to be administered at reasonable cost and in an efficient and effective manner.

- o Compliance: Persons on the program would be required to submit monthly, quarterly, or annual reports on income, assets, and household composition. Widespread noncompliance in the form of late or incomplete reports could seriously undermine the administrative feasibility of the program. The income maintenance experiments have shown, however, that the incidence of such deficiencies would be well within acceptable levels if the system were properly structured. IRS planning for its new National Tax Administration offers assurance that the computer hardware and procedures exist to handle large and complex reporting volumes.
- o Enforcement: The program would be equally dependent on reporting accuracy. Understatement of income or assets, overstatement of household size, or duplicate filing in more than one household could, if on a large scale, have severe fiscal consequences and undermine public confidence. The task force thus concluded that a sizable and visible enforcement effort should be built into the program. The task force set an initial annual coverage of 20 percent of the caseload for verification or examination. After the first three years, the coverage could be reduced to around 10 percent.
- o Implementation Schedule: The task force concluded that the time required to place in position the manpower, facilities, and equipment necessary to enroll effectively and administer the proposal was approximately four years. The principal constraint is that 20 months must be allowed subsequent to enactment for data processing equipment procurement, installation, and operational testing. When combined with the need for a phase-in of initial enrollment, to prevent an expensive workload peak, the first payment could not be made before the 25th month after enactment. Fortunately, the two years of systems design, contract bidding, office site selection, and personnel training could take place between the time the legislation is introduced and its enactment.

Organizational Structure

The operational base of the administering agency would be a field structure of approximately 1,000 offices supervised by some 40 area offices . The field offices would contain teams of front line personnel primarily concerned with enrollment and assistance of filing units in reporting changes in income, assets, and household composition. These same people would perform various verification functions. The area offices would exercise direct management control over the field offices and provide administrative support to them. In addition, the area offices would house education staff to inform the public about program benefits and obligations and investigation staff to perform in-depth or on-site enforcement activities beyond the capacity of field office personnel. .

Complementing the field structure would be about seven data processing centers that would receive information directly from terminals in the field offices, process it, and prepare the payment tapes for use by the Bureau of Accounts. The agency would be centrally directed by a national office supported by staff at the regional level. In keeping with the nondiscretionary and substantively simple nature of the proposal, the number of personnel needed at the national and regional levels would be low; approximately one-third would be assigned to inspections in the field.

Administrative Efficiency

The proposed new system could be administered much more efficiently than the current collection of welfare programs. Using the organizational structure developed by the task force, it is estimated that it would cost \$1.4 billion annually to administer the program. This amounts to less than 7.5 percent of benefit payments, compared to the 10 to 15 percent overhead incurred by the current programs.

TAB D

BACKGROUND ON COST ESTIMATES OF THE CONSOLIDATED CASH ASSISTANCE
APPROACH - ZERO FEDERAL NET COST

The expected net Federal costs have been estimated in two steps. First, an estimate was developed of the gross costs of the Consolidated Cash Approach. Second, we have estimated the costs of the programs reduced or eliminated by the implementation of the Consolidated Cash Plan. All estimates are for Fiscal Year 1978.

Derivation of Gross Transfer Costs

The gross transfer costs of the Consolidated Cash Plan were estimated using a micro-simulation computer model developed and operated within the Office of the Assistant Secretary for Planning and Evaluation at HEW. This model was programmed to estimate the total transfers in a program very similar to the Consolidated Cash Plan. The computer estimate was then adjusted for a number of factors that were not programmed into the computer model.

The Computer Simulation

- . The March 1975 Current Population Survey, with income information for Calendar Year 1974, was used as the data base for the estimate. The unemployment rate in 1974 was 5.6 percent. The survey does not include information on Puerto Rico, but does cover the 50 States and the District of Columbia.
- . Benefit levels were deflated to Calendar Year 1974 using published data on changes in the Consumer Price Index since 1974.
- . A comprehensive filing unit was used for the estimate. All related individuals in the Census household were assumed to file together for the purposes of eligibility and benefit determinations.

The computer estimate was \$19.7 billion. A number of adjustments to this estimate were necessary.

\$ billion

Base Estimate

+ 19.7

Adjustments

- . Timing Adjustment - The computer simulation was for Calendar Year 1974. This was increased by 28 percent to account for inflation between Calendar Year 1974 and Fiscal Year 1978.
 $.28 \times 19.7 = 5.5$

+ 5.5

- Under-Reporting of Income - A substantial amount of income is not reported on the Current Population Survey. Often only one member of the household is interviewed and this may not be the head. A transfer program should uncover income beyond that reported on the CPS. This will reduce costs by ten percent. - 2.5
- Asset Test Adjustment - Estimates based on the Survey of Economic Opportunity, that provides data on asset holdings of families cross classified by income levels, indicate that 15 percent or more of the filing units would be ineligible. We have reduced costs by ten percent. - 2.3
- Accounting Period Adjustment - Consolidated Cash benefits would be based upon the previous 6 months income, utilizing a system that carries forward for 6 months the amount of income in excess of the breakeven level. This system would be more responsive to fluctuations in monthly income than the calendar year accounting system implicit in the computer simulation. + 0.2
- Labor Supply Adjustment - While very few persons would quit their jobs as a result of the Consolidated Cash Plan, some marginal hours of work reduction might result among those recipients who would not otherwise be participating in a cash assistance program. Evidence from the income maintenance experiments indicates that this could increase costs. + 1.5
- Unemployment Rate Adjustment - The unemployment rate incorporated in the data base is 5.6 percent. The projected unemployment rate in fiscal 1978 is 6.6 percent. This will increase costs. + 0.7
- Certification of Separate Economic Status - The computer estimate assumes that all related residents living together would file together. Some related individuals live in the same household, but do not share income with other relatives. Some such persons would file separately by proving separate economic status. This would add to costs. + 1.0
- Veterans' Pension Adjustment - The benefit reduction rate on government transfers is 100 percent after a \$20 per month disregard. This \$20 per month disregard would not be permitted on the means-tested veterans' programs. - 0.6

- . CETA Redirection - CETA redirection would add \$3.4 to the wages of recipients. We would tax these wages at 60 percent, thereby reducing transfers by \$2.0 billion. - 2.0

The net result of all these adjustments is to add 1.5 billion to the initial computer estimate of \$19.7 billion, yielding a total of \$21.2 billion. This would equal total transfers if all eligibles participated. This is extremely unlikely.

- . Participation Rates - Substantially less than all of the eligible households can be expected to participate. We have, therefore, applied participation rates similar to those found in the current cash transfer programs. For example, we have assumed that 93 percent of potential transfers would be paid to single parent families, 85 percent to two parent families, and 80 percent to other units. Overall, the participation rates have the effect of reducing transfers by 13.7 percent. - 2.9

We estimate, therefore, that total consolidated cash assistance transfers would amount to \$18.3 billion.

- . Administrative Costs - We estimate that the annual costs of administering a similar cash assistance program in 1978 would be \$1.4 billion. + 1.4
- . Emergency Needs - Since the consolidated cash approach would have a relatively long accountable period, an emergency assistance program would be necessary to supplement some families facing unanticipated situations. + 0.6

The total gross costs would therefore equal \$18.3 billion plus the administrative costs of \$1.4 billion and the Federal emergency assistance contribution of \$0.6 billion, yielding a total gross Federal cost of \$20.3 billion.

Program Offsets

The following programs would be replaced in fiscal 1978 by the Consolidated Cash Plan.

	billions of dollars
AFDC - Federal Share	6.6
SSI - Basic Federal Program	5.7
Food Stamps	5.0
Earned Income Tax Credit	1.3
Unemployment Insurance - after 26 weeks	1.3
New Starts in Housing Assistance	<u>.4</u>
	20.3
 Gross Costs	 20.3
Minus Offsets	<u>20.3</u>
 Net Costs	 0.0



THE PRESIDENT HAS SEEN.

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

April 29, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: JOE CALIFANO *Joe*

With the proper rhetoric, this is the guts of what I think you should say to the American people on Monday:

1. Announce your intention to scrap the entire welfare system. You knew welfare needed reform, as you repeatedly stated during your campaign. But as a result of your study and ours over the past 3½ months, the surgery to be performed is far more radical than you had previously imagined. It is time to junk the entire system.
2. When an entire system is junked and a new one put in place, we must do so carefully and responsibly, especially when the jobs and lives of millions of American citizens at the bottom of the economic ladder are at stake. You intend to deal totally with the welfare mess, but with great care to avoid hurting people and wasting more of the taxpayers money.
3. State that AFDC, SSI and food stamps have lots of leakage, complicated administrative structures, are often degrading to recipients and wasteful to taxpayers, and provide an unacceptable administrative burden. You intend to consolidate them into a single cash assistance program.
4. State candidly that the employment service has never done well in providing jobs or training for the poor population of our country. You intend to establish a special new employment program with targeted health, education and training, and (to the maximum extent possible) public jobs at the end of the road for those who can't find private employment.
5. State candidly that you want to stay away from all the code words that have plagued prior attempts to deal with the welfare/jobs system. So you have no gimmick or catch words like negative income tax, guaranteed jobs,

single tracks, double tracks, triple tracks. But you do have a set of essential principles that will guide development of detailed legislation. These principles are those laid out in the long memorandum I have sent you and the Watson-Parham memo of last week.

6. With these program components and within these principles, you are directing me to get with the governors, state by state, to work out details at different levels of cash assistance, and you are directing Marshall and me to put together a new, flexible health, education and training and employment program in consultation with the Congress and the governors.

ADDENDUM:

a. If you insist, we can add other program elements contained in the long basic memorandum I have sent you today on which there is agreement between the HEW and Labor staffs.

b. We can protect your current Food Stamp bill by indicating the fact that a massive scrapping of the welfare system will not be in place for four years. Therefore, the Congress should go forward and eliminate the purchase requirement. Bergland agrees with this.

c. The special new employment program should obviously be run by the Labor Department and they should do the training program as well. It may be that HEW has a special contribution to make in the health and education areas. But we should forget prior bureaucratic history and worry about how to make a program work to get this population on the job.

MARSHALL MEMO

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

April 29, 1977
1977 APR 29 PM 3 33

MEMORANDUM FOR THE PRESIDENT

FROM:

RAY MARSHALL 2. m.

SUBJECT:

Welfare Reform Proposals

You have received a long, detailed, and competent HEW paper. Therefore, it would not be useful for me to send in a separate DOL analysis of the competing welfare reform proposals. However, I do wish to convey my personal views on welfare reform. The memo is not meant to provide a balanced list of pros and cons, but to let you know why I favor a welfare reform program that assures jobs to those who can work and cannot find employment, supplements the income of the working poor, and provides a decent minimum standard of living for those who cannot work.

We and HEW agree that there are three issues. When you boil down all the complexity, it comes down to this:

a) Reliance on Jobs and Training

Is it possible to change the American economic system so that by 1980 or 1981 we can assure every head of a family with children a full-time job paying at least the minimum wage? There is no way to avoid the question; either we can or cannot. Clearly, the Department of Labor believes we can, even though it agrees to create a backup safety net of training stipends in case we fail.

b) Benefits Structure

Either we create three benefit systems that maximize the incentives to work and minimize the incentives for fraud or we create one more complicated program that reduces the work incentives for two-parent families and requires cross filing and asset tests for millions of additional persons. DOL believes that it needs

to be able to pay a full wage and earning stipend through the employment and training system to make the job program workable.

c) Administrative Structures

There is no way that we can eliminate the IRS for those who work, the employment and training system for those who need work, or the HEW apparatus for those who cannot work. The only question is whether individuals have to come to one organization or to two or more at any point in time. DOL believes that dividing the responsibility among Labor, HEW, and IRS and letting an individual work with one organization at a time is the best administrative arrangement.

The attachment discusses each of these three issues.

RELIANCE ON JOBS AND TRAINING

Most American families are supported primarily by the income they earn on the job. We should move towards a system that assures every family head an opportunity to work in a full-time job paying an acceptable wage. This will provide all the incentive for work that is needed. This is clearly superior to a program that gives out checks and then subjects recipients to a work test or forces them into a low-wage, part-time job. A program that pits the individual against the system is coercive and very difficult to manage. The only feasible work test is to assure a job at an adequate salary.

Working in a meaningful job enhances a person's self-image and skills. It is the best way to strengthen the family unit. Available evidence indicates that families on welfare are no more stable and are frequently less stable than they would be if they were not being provided these benefits. Over time, working in a real job will reduce dependency; providing cash transfers and jobs with little pay will increase it.

I believe that we can build a system around assured jobs and training. Nevertheless, a safety net should be provided for those special circumstances or times when the commitment cannot be fully or immediately satisfied. As you pointed out at the last briefing, this safety net can be created by assuring that training stipends will be paid whether or not the training slot is available. I am convinced that these emergency situations will be unusual as long as the economy is performing satisfactorily.

It would be possible and prudent to phase in the job system over a two-year period. During this time, the welfare system would be reformed to the extent possible, but cash support would not be extended to anyone not now eligible. We should not reduce eligibility for welfare, however, until jobs are assured for all heads of families with children. About 1.0 to 1.2 million jobs and training slots would be all that is needed to assure jobs to all two-parent families and to all those now on welfare who would prefer these jobs. This is about the number that could be available by the end of 1979. Indeed, if you wanted to, you could make all of the above changes while postponing a final decision between assured jobs and consolidated cash. If you then chose the

assured job program, we could gradually eliminate welfare eligibility for those two-parent families now receiving AFDC under the unemployed fathers program, and for single-parent families with no children under 12. The total reduction in the welfare rolls would exceed 20%.

I recognize the difficulties of providing jobs for this low-income population. Our past experience with MDTA, Operation Mainstream, and welfare demonstration projects, as well as the planning for the stimulus package, convinces me that it can be done. There is appropriate work in the public sector that needs doing. An assured job at a reasonable wage will provide the necessary incentive; without that incentive, the program cannot be managed effectively.

BENEFIT STRUCTURE

The benefit structure must meet three criteria:

- a) Create incentives that make regular private sector employment preferable to special public sector employment and that make that employment preferable to not working at all.
- b) Create a system that can be administered and can be understood by recipients.
- c) Avoid creating incentives to misreport income and to defraud the Government.

Incentives

A manageable employment and training system requires that the enrollee receive his wage income or training stipend from the employing or training organization. Only in this way will these jobs feel and look like real work.

If the full income is paid by the employment and training organization, prevailing wages could be paid without encouraging workers to leave full-time employment opportunities in the private sector. The correct incentives are that the minimum wage plus the earned income credit in regular jobs exceed the income available in the special jobs.

I recognize that these jobs should not require too high a skill level or command a wage much beyond the minimum wage.

We cannot afford a situation where wages are high enough so that the Federal Government begins to pick up the tab for regular State and local government employees or attracts full-time, minimum wage workers from the private sector.

Complexity

The benefit structure for those not expected to work full time will inevitably be complicated. Benefits will vary with family size and income. Those who are disabled or aged will receive more. Different kinds of income--e.g., wages and unemployment insurance or veterans benefits--will be taxed differently. Assets must be evaluated. Income must be measured and benefits paid monthly. We should not extend these complex features to any more families than is absolutely necessary. Our suggestion is to let the employment and training system pay full wages and benefits to the enrollees and to let IRS continue to pay out the earned income tax credit.

Fraud

Paying working poor families the earned income tax credit gives them a positive incentive to report their earnings. In contrast, under an income guarantee plan, workers can gain considerably by underreporting their incomes because each \$1 of income they report reduces their grant by 50 cents or more; \$80 a week income unreported would be as good as \$160 a week income that is reported. ||

ADMINISTRATION

Under any option, there would be three organizations dealing with low-income families--the IRS tax system, the DOL employment and training system, and the HEW social services system. One choice is to let each organization maintain its own cash assistance system. HEW would pay benefits to those not expected to work, DOL (or the CETA prime sponsors) would pay enrollees in the employment and training programs, and IRS would pay the earned income tax credit to the working poor as it does now. The alternative is to attempt to merge these cash assistance systems (leaving unemployment insurance, however, in the employment and training system).

A single agency for cash assistance would increase the system's complexity from the recipient's point of view. For

example, a single agency would mean that someone now receiving an earned income credit would have to apply at a local intake office and submit to an assets test if he wanted to continue to receive benefits.

The single agency approach does not avoid the problems of people moving between cash assistance, manpower and regular job tracks. Changes in family composition or labor market status would have to be recorded and benefits changed. Finally, a single agency increases the "apparent" size of the welfare rolls.

The use of multiple tracks to administer income support avoids placing the stigma of welfare on those who work full time all year. Moreover, it consolidates programs according to the needs of people. The multiple track system appears more complex on a chart, but this appearance is misleading. By providing cash assistance to the working poor through the regular tax system, you can avoid the need for a new, more complex intake process and avoid the need to continually redetermine eligibility status. By consolidating the employment and training system (including unemployment insurance, job search, jobs, and training), one agency would provide all needed support to those expected to work. There would be no welfare stigma placed on these individuals as all their income would be related to work. Finally, one agency would provide cash assistance to those not expected to work.

EIZENSTAT/WATSON MEMO

THE WHITE HOUSE

WASHINGTON

April 29, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT *Stu by DR*
JACK WATSON *R*
BERT CARP
JIM PARHAM

SUBJECT: Welfare Reform Statement

We believe that agreement can be reached on most of the key welfare principles over this weekend. As Secretary Califano's memo indicates, there is broad agreement among all parties on a wide range of issues.

We would, however, strongly urge you not to make a final decision, in the welfare statement next week, between the specific negative income tax proposed by HEW -- under which those who work in public service employment, those in private employment, and those not expected to work would be served by a single cash-grant system -- and the specific multiple-track approach proposed by the Labor Department and Tom Joe.

- We believe that the basis for your ultimate decision will be improved by additional work on both plans. It is quite likely that a single compromise could be reached which would be stronger than either plan is presently.
- A final commitment to either approach at this time would permit opponents to attack our plan before we can complete the detail work necessary to defend our position. We can expect that Administration representatives would be asked by Senator Moynihan and others to testify on our approach long before we are prepared to do so.
- It will be much easier to sell either approach to Congressional leaders and other key constituents if they are involved before the final decision is made.

Secretary Califano agrees with this approach.

SCHULTZE MEMO

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

April 29, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze *CLS*
SUBJECT: Welfare Reform

I spent a large part of Thursday and some time Friday trying to find an approach which would merge the best points of the HEW and Labor positions. I do not want to rule out the possibility that with further intensive work, such an approach could be found. But at the moment the chances are less than 50-50.

Let me outline what I think the major issues are.

I. The future as it would look under the two plans:

1. Under the Labor plan, the incentives are so structured that family heads would no longer be likely to take part-time, sporadic private jobs at low wages. The supplemental income benefits for part-time or part-year workers under the Labor plan are small. It would almost always pay for such workers to move over to year-round, minimum wage (plus), public service jobs. The U.S. labor market would, in effect, be changed so that youngsters and second-earners (mainly women) would be the sole source of labor for such private jobs.

There would be incentives under the Labor plan for workers to leave public service jobs for full-time private jobs. But the incentive isn't very large -- about \$420 a year -- and might be affected by the security of a public job compared to the uncertain job tenure of a low-wage private job.

2. The HEW plan provides for somewhat less attractive public service jobs (30 hours a week maximum) and somewhat greater income supplements for people working part-time or part-year in private industry. Thus it would still pay many family heads to offer their labor services in part-time or part-year jobs. *why not incorporate in Labor Plan?*
3. For the "unemployable" -- single parent families with children under 12 --, for single people, and for childless couples, the two plans are basically the same.

II. What happens if the 1-1/2 million productive public service jobs cannot be provided.

1. In the Labor plan, those for whom no PSE jobs are available would be given a "training stipend," of \$83 a week, \$4300 a year (for a family of four), and have to show up for eight hours a day at a training program. Except for "moonlighting," they would not be able to take part-time private jobs.
2. In the HEW plan, if no PSE job were available, a family of four would get \$4300 (with no "training" requirement), and could keep 50 percent of any earnings from a private job.
3. I believe everybody agrees that if we fall far short of the 1-1/2 million public service jobs, the Labor plan is inferior.
4. The Labor plan "requirement" for 1-1/2 million PSE jobs assumes a 5 to 5-1/2 percent unemployment rate. If unemployment rises in a future recession, a much larger number will be needed. What is the answer?
 - A. Under the Labor plan, if new PSE jobs couldn't be created, the newly employed family heads (or those exhausting unemployment insurance) would be placed in a "training position" and given \$83 a week to show up 8 hours a day. Again, except for moonlighting they couldn't take part-time private work.
 - B. At the present time, in a recession, what often happens is that full-time earners, when fired, take part-time jobs usually held by youth or secondary workers. Labor's plan, in effect, would pull such full-time workers out of the labor force into a "holding pattern" until prosperity returned.

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3 x 10⁴
1.5 x 10⁶
.5 x 10²
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7 in Plains

bed

III. Assume that we can get 1-1/2 million public service jobs. Do we like the "future" as envisaged by the two plans.

1. There is some attractiveness in an objective which aims at a full-time job for every employable family head. The American economy would then have to depend upon youngsters and secondary workers to fulfill its need for part-time and sporadic work.
2. But would we create a permanent class of public service workers, engaged in "make work" projects, not much better than welfare? Would abuses here begin to equal abuses under the current welfare system?
3. The answer hinges on whether or not we can create 1-1/2 million productive jobs for the very least advantaged, lowest skilled segment of the labor market? Nobody knows the answer.

IV. Why not go with the HEW plan, but simply try very hard to provide 1-1/2 million full-time PSE jobs for employable family heads? If we make it, great. If we fall short, the HEW plan provides income support plus incentives to find private part-time or full-time work.

1. Labor believes it is essential that all the income received in a public service job be either a wage or a tax credit and not a wage plus an income-supplement check from the "welfare agency." The very essence of the HEW plan is that income supplements are based on family size and family income, including the earnings of all members of the family. Thus, under the HEW plan, the total income a person on a PSE job received would vary from time to time, as earnings of other members of the family increased or decreased.

Thus, argues Labor, the HEW plan is fundamentally inconsistent with their objective of providing income in a form which is as close to a pure wage payment as possible.

bad ((As a consequence of this desire, a PSE worker earning, say \$6000 a year under the Labor plan, would not have his income reduced when his wife took a \$5000 a year job.)

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2. I spent hours with Aaron (HEW) and Packer (Labor) trying to merge the two plans, but kept being hung up on this difficulty.
3. The chances are perhaps 1 in 4 that with more time we could work it out.

V. What should you do?

1. The details of the plans, particularly the Labor plan, have been changed frequently in the past two weeks. I doubt if anyone is aware of the full implications of each plan. I know that I haven't had a chance to understand them.
 - A. Each side claims these are major administrative difficulties with the other's plan that may be critical to success or failure.
 - B. There may be intricate problems which occur in both plans, particularly Labor's, when family status changes; and in the welfare population this happens frequently.
 - C. I am very uncertain whether the cost estimates will hold up.
2. Therefore, I suggest:
 - A. On Monday you announce the principles, i.e. the consolidation of AFDC, SSI, and food stamps, and that the plan will have a major job component.
 - B. That you set an internal deadline, say two weeks after you come back from the Summit, when you will decide which of the two ways to go. (In the meantime, we can do more work on the implications of the plans and try, once more, to merge the two approaches.)
 - C. After that decision, Califano should start working with the Hill and with the Governors. I do not think that he should begin negotiating without such a decision.

SHORTLY AFTER BECOMING PRESIDENT, I ANNOUNCED THAT A COMPREHENSIVE REFORM OF THE NATION'S WELFARE SYSTEM WOULD BE ONE OF OUR FIRST PRIORITIES. UNDER THE GENERAL LEADERSHIP OF HEW SECRETARY CALIFANO, WE HAVE WORKED WITH OTHER PRIVATE AND GOVERNMENT AGENCIES DURING THE LAST THREE MONTHS TO ASSESS THE PRESENT WELFARE SYSTEM AND TO PROPOSE

IMPROVEMENTS TO IT. IT IS WORSE THAN WE THOUGHT.

(EXAMPLES AND CHARTS)

THE MOST IMPORTANT UNANIMOUS CONCLUSION IS THAT THE PRESENT WELFARE PROGRAMS SHOULD BE SCRAPPED AND A TOTALLY NEW SYSTEM IMPLEMENTED.

THIS CONCLUSION IN NO WAY IS MEANT TO DISPARAGE THE GREAT VALUE OF THE SEPARATE AND INDIVIDUAL PROGRAMS ENACTED BY THE CONGRESS OVER THE PAST DECADE AND A HALF. THESE INCLUDE

FOOD STAMPS FOR ALL LOW INCOME PERSONS,
THE SUPPLEMENTAL SECURITY INCOME FLOOR
FOR OUR AGED AND DISABLED, WORK
INCENTIVES FOR WELFARE FAMILIES
WITH CHILDREN, INCREASED HOUSING
ASSISTANCE, TAX CREDITS, UNEMPLOYMENT
INSURANCE EXTENSIONS, ENLARGED JOBS
PROGRAMS, AND THE INDEXING OF SOCIAL
SECURITY PAYMENTS TO COUNTER THE
BIGGEST ENEMY OF THE POOR -- INFLATION.

THIS CONCLUSION IS ONLY TO SAY
THAT THESE MANY SEPARATE PROGRAMS,
TAKEN TOGETHER, STILL DO NOT CONSTITUTE
A RATIONAL, COHERENT SYSTEM THAT IS
ADEQUATE AND FAIR FOR ALL THE POOR.

THEY ARE STILL OVERLY WASTEFUL, CAPRICIOUS
AND SUBJECT TO FRAUD. THEY VIOLATE
MANY DESIRABLE AND NECESSARY PRINCIPLES.
WE HAVE ESTABLISHED THE FOLLOWING GOALS:

1) NO HIGHER INITIAL COST
THAN THE PRESENT SYSTEMS;

2) UNDER THIS SYSTEM EVERY
FAMILY WITH CHILDREN AND A MEMBER
ABLE TO WORK SHOULD HAVE ACCESS TO
A JOB;

3) INCENTIVES SHOULD ALWAYS
ENCOURAGE FULLTIME AND PART-TIME
PRIVATE SECTOR EMPLOYMENT;

4) PUBLIC TRAINING AND EMPLOY-
MENT PROGRAMS SHOULD BE PROVIDED WHEN
PRIVATE EMPLOYMENT IS UNAVAILABLE;

5) A FAMILY SHOULD HAVE MORE
INCOME IF IT WORKS THAN IF IT DOES
NOT;

6) INCENTIVES SHOULD BE
DESIGNED TO KEEP FAMILIES TOGETHER;

7) EARNED INCOME TAX CREDITS
SHOULD BE CONTINUED TO HELP THE
WORKING POOR;

8) A DECENT INCOME SHOULD BE
PROVIDED ALSO FOR THOSE WHO CANNOT

WORK OR EARN ADEQUATE INCOMES, WITH
FEDERAL BENEFITS CONSOLIDATED INTO A
SIMPLE CASH PAYMENT, VARYING IN AMOUNT
ONLY TO ACCOMMODATE DIFFERENCES IN
COSTS OF LIVING FROM ONE AREA TO
ANOTHER;

9) THE PROGRAMS SHOULD BE
SIMPLER AND EASIER TO ADMINISTER;

10) THERE SHOULD BE INCENTIVES
TO BE HONEST AND TO ELIMINATE FRAUD;

11) THE UNPREDICTABLE AND GROWING
FINANCIAL BURDEN ON STATE AND LOCAL
GOVERNMENTS SHOULD BE REDUCED AS

RAPIDLY AS FEDERAL RESOURCES PERMIT;
AND

12) LOCAL ADMINISTRATION OF
PUBLIC JOB PROGRAMS SHOULD BE EMPHASIZED.

WE BELIEVE THESE PRINCIPLES AND
GOALS CAN BE MET.

THERE WILL BE A HEAVY EMPHASIS
ON JOBS, SIMPLICITY OF ADMINISTRATION,
FINANCIAL INCENTIVE TO WORK, ADEQUATE
ASSISTANCE FOR THOSE WHO CANNOT WORK,
EQUITABLE BENEFITS FOR ALL NEEDY
AMERICAN FAMILIES, AND CLOSE COOPERA-
TION BETWEEN PRIVATE GROUPS AND
OFFICIALS AT ALL LEVELS OF GOVERNMENT.

THE MORE JOBS THAT ARE AVAILABLE,
THE LESS CASH SUPPLEMENT WE WILL NEED.

WE WILL WORK CLOSELY WITH CONGRESS
AND WITH STATE, LOCAL AND COMMUNITY
LEADERS, AND WILL HAVE LEGISLATIVE
PROPOSALS COMPLETED BY THE FIRST WEEK
IN AUGUST. CONSULTATIONS WITH EACH
OF THE FIFTY STATES ARE NECESSARY.
IF THE NEW LEGISLATION CAN BE ADOPTED
EARLY IN 1978, AN ADDITIONAL THREE
YEARS WILL BE REQUIRED TO IMPLEMENT
THE PROGRAM. THE EXTREMELY COMPLICATED
CHANGES MUST BE MADE CAREFULLY AND
RESPONSIBLY.

SCHEDULED CONGRESSIONAL HEARINGS
WILL PERMIT THE NATURE OF THE TASKS
AHEAD TO BE EXPLAINED AND DEBATED.

IN THE MEANTIME, THE ADMINISTRA-
TION'S PROPOSED REFORMS FOR THE FOOD
STAMP PROGRAM SHOULD BE ENACTED.

5-2-77 Lag/EX
SYR- ECON- BUDGET
— High Balance '81
CONG BUDGET PROCESS
#50 RESTATE
COOP - LONG TERM
PRIVATE SECTOR KEY
IF STRONG, REV UP
WEAK - CUT SPENDING?
RAISE TAXES? - NO

INTRO- Burns/Rubin
MUSKIE- GIAMO. SCHULTZ
LANCIE

AG- CWPS- Hi Ed- VETS
H2O PROJ- IMPACT
HOSP COSTS-

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THE PRESIDENT HAS SEEN.

51

CLARK M. CLIFFORD
WASHINGTON, D. C.

May 2, 1977

The President
The White House

Dear Mr. President:

Your appearance before the White House
Correspondents dinner Saturday night was a
spectacular success. Your humor was delightful
and your delivery was superb.

The group is probably Washington's most difficult
audience but you converted a rabble of unbeliev-
ers into a rapt audience of Christians. I was
very proud.

I shall look forward to seeing you in London.

Respectfully yours,

ccak -

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THE WHITE HOUSE
WASHINGTON

May 2, 1977

Bob Lipshutz -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Stu Eizenstat
Jody Powell
Jack Watson

Re: Claim of Executive Privilege

THE WHITE HOUSE
WASHINGTON

Mr. President:

Eizenstat's office concurs
with Lipshutz/McKenna in
recommending a claim of
Executive Privilege.

Rick

THE WHITE HOUSE
WASHINGTON

April 30, 1977

THE PRESIDENT HAS SEEN.

MEMORANDUM FOR THE PRESIDENT

FROM: BOB LIPSHUTZ
MARGARET MCKENNA *MMK*

SUBJECT: Claim of Executive Privilege

Plaintiffs, in a law suit which was filed in May 1976, have subpoenaed the attached three documents. These documents concern your decision on the water projects and are the same documents which we refused to supply to Congress claiming that they were privileged.

The Justice Department filed a Motion for Continuance to respond to the Plaintiffs' Motion to Compel Production of these documents, but the judge has not yet ruled on the continuance. We will have to decide whether or not to exert a claim of Executive privilege. The decision must be made no later than Tuesday evening, and could be needed as soon as Monday morning, depending on the judge's ruling.

There are three alternatives: (1) Produce the documents. (2) Refuse to produce the documents based on Executive privilege. (3) Settle with the plaintiffs on an indefinite continuance of the law suit.

Produce the Documents. If we produce the documents, there are two problems created. First, we have already refused to give these same documents to the Congress and I believe producing them for a court would cause political problems with the Hill. Second, it sets a bad precedent to produce such memoranda. The purpose of Executive privilege is to allow free and open and honest communication between staff and Cabinet people and you. The memoranda in question are exactly the type of memoranda that Executive privilege doctrine concerns.

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Claim Executive privilege. If you decide to claim Executive privilege, we would file an affidavit stating the type of documents involved and claim the privilege. The Judge could then agree and not require us to turn them over. Or, he could say that he wants to have an in camera inspection of the documents. He could then decide that they were privileged or direct us to produce them. At this point we would have another decision to make. We could produce the documents or we could withhold them. If we decide to withhold them, the court could decide to sanction us by either determining that by not producing the documents there is a legal inference that the material in them proves the plaintiffs' case. Or he could go as far as to throw out our answer to the complaint, thereby ruling out all defenses to the suit. In other words, we would lose the law suit, though we would not have to release the documents.

Negotiate a Continuance of the law suit. We could attempt with the Audubon Society, who are the plaintiffs in this case, to continue the law suit indefinitely. They would agree to do this if we halt construction on the McClosky Canal part of the Garrison Project. You have made a decision and recommended to Congress that we continue only with the McClosky Canal and Lonetree Reservoir and Dam portions. The McClosky Canal is 96% complete and it is the only portion which is now being worked on. Construction on the Lonetree portion will not begin until late summer or possibly fall.

After studying the records and speaking with the lawyers, as well as Secretary Andrus, I believe that the Judge will probably rule that we must halt all construction. The Plaintiffs allege that there was an inadequate environmental impact statement, violations of guidelines, and the final decision was arbitrary. They have substantial evidence to support their position.

I have encouraged the lawyers to get the Plaintiffs to settle if we agree to complete only the McClosky Canal and then study the other portions of the project. They are presently negotiating.

Even if we get the Plaintiffs to agree to a continuance, you may have to decide about producing three documents because they won't reach an agreement before the Judge requires our answer.

OPTIONS

Executive Privilege

1. Produce the documents _____
2. Claim Executive privilege (recommend) ✓

Negotiate a Continuance

- A. By halting all construction _____
- B. By completing McClosky Canal but agreeing to study the remaining portions of the project (giving Plaintiffs 90 days notice before construction begins _____)

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THE WHITE HOUSE
WASHINGTON

May 2, 1977

Stu Eizenstat
Jack Watson

The attached was returned in the
President's outbox and is forwarded
to you for your information.

Rick Hutcheson

Re: Redwoods National Park

THE WHITE HOUSE
WASHINGTON

April 27, 1977

THE PRESIDENT HAS SEEN.

MEMORANDUM FOR

THE PRESIDENT

FROM

STU EIZENSTAT

SUBJECT:

Redwoods National Park

*We should make
every effort to
expedite swaps to
minimize budget
impact. I trust
Cecil's judgment*

Shr J

My memorandum of April 20 outlined Secretary Andrus' proposal to expand the Redwoods National Park. You requested additional information on the Secretary's comment that costs might be decreased through cooperation with the timber companies.

Secretary Andrus was referring to the use of land exchanges with the timber companies. He is reviewing two options. First, legislation to expand the Park would authorize the exchange of public lands for private park lands proposed for acquisition. There are 750,000 acres of public forest land which could serve as a pool for exchange purposes. Second, the legislation could request a three-way exchange between the federal and state governments and the timber companies. There are 42,000 acres which might be exchanged.

The Interior Department is also reviewing the Forest Incentive Program which promotes the conversion of lands from hardwood to softwood timber production. This program could immediately employ loggers and increase the future supply of softwoods. Over 180,000 acres of hardwoods could be converted.

These options may lower land acquisition costs, but it will be some time before detailed proposals can be developed. Therefore, it does not appear that there will be any significant reductions at this time in the Secretary's proposal which calls for \$359 million for land acquisition.

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